Kier Group

Results for the 12 months ended 30 June 2021

16 September 2021

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Results Summary

Andrew Davies, CEO

Group FY21 highlights

2019 strategic actions delivered

- Simplification of Group complete
- Gross proceeds of c.£350m through successful capital raise and divestment of Kier Living
- Extension of 2017 RCF to January 2025
- Launched Sustainability Framework, Building for a Sustainable World

Strong operational performance and materially improved results

- Group revenue of £3.3bn (FY20: £3.5bn)
- Adjusted operating profit margin increased to 3%
- Adjusted basic EPS of 25.0p (FY20: 12.2p)
- Strong free cash flow of £93m
- Net cash £3m (FY20: net debt £(310)m)

Medium term value creation plan

- £4 – £4.5bn revenue at c.3.5% margin
  - High quality order book. Well positioned for UK Government spending commitments
- 90% cash conversion and sustainable net cash balance
- Sustainable dividend policy

Infrastructure – UK Government Spending Commitments

National Infrastructure Strategy- commitment to spend £650bn[1] over next 5 years

Infrastructure

Highways

- Road Investment Strategy 2: £27bn investment in England's strategic roads - 2020-2025 (a 60% increase on Roads Investment Strategy 1 from 2015-2020)
- Project Speed and the new Acceleration Unit launched by DfT in August 2020
- Sir Peter Hendys' Union Connectivity Review published in March 2021

Utilities

- Water England/ Wales AMP7 £50bn by 2024, Scottish SR21 £8bn by 2027, NI PC21 £2.8bn by 2027
- Energy - GB - RIIO-ED1 (£17bn by 2023) / RIIO-GD (£30bn by 2026); NI - RP 6 (£657m by 2024) and GD17 (£226m by 2023)
- Telecoms – Fibre/5G by 2027, £32bn commitment by private and public sectors

Infrastructure

- £37bn - 53bn forecast cost ranges for HS2 Phases 2a and 2b
- £22bn available via Infrastructure Bank to fund or guarantee future schemes
- £20bn new nuclear build
- £56bn committed for CP6
- £4bn cross-departmental "Levelling Up" Fund

Net Zero infrastructure

- UK leading net-zero pledge
- Ten point plan for a green industrial revolution
- Greener buildings, public transport and carbon capture

Note: (1) Source - Infrastructure Pipeline September 2021

Construction – UK Government Spending Commitments

Spending focused on schools, hospitals, prisons and defence

Construction

Education

- 10 year School Re-building Programme
- First 50 school projects announced valued at £1bn
- £1.5bn Further Education programme announced

Health

- £1.5bn additional funding for hospital upgrades
- £3.7bn New Hospitals Programme to be delivered by 2025

Justice

- 18,000 new prison places required
- £4bn commitment over 4 years
- c.£450m per annum of estate maintenance

Defence

- c.£8bn 10-year capital expenditure programme announced

Commercial

- Increase in refurbishment for agile working practices due to COVID-19
- Regional focus
- London market

Attractive Positions in Growing Markets

Infrastructure Services

Highways

- Market leading position (#1 strategic highways and top 3 local highways)
- Highways national assets valued at over £500bn drive robust ongoing demand for renewal, enhancement and maintenance
- Over two thirds of revenues undertaken on a low commercial risk cost sensitive basis
- Established relationships with strategic clients on long term frameworks typically 6-10 years

£0.7bn
FY21 Revenue

Utilities

- Top 3 contractor in water and energy sectors
- More than 90% of revenues from long-term contract and alliances
- Majority of contracts delivered under cost reimbursable contracts
- Fibre network build partner to Top 3 UK digital infrastructure providers

£0.4bn
FY21 Revenue

Infrastructure

- Delivers complex high value civil engineering projects for customers across key sectors - Nuclear, Energy, and Rail
- Delivery partner on the largest section of HS2 Phase 1 – Europe's biggest infrastructure project
- Repeat business relationships >10 years for customers in our chosen sectors
- 89% of contracts delivered under cost reimbursable contracts

£0.3bn
FY21 Revenue

Attractive Positions in Growing Markets

Construction [1]

- Leading UK national builder
- Project delivery for public and private sectors
- Strategic Supplier to the Department for Education, NHS and MoJ
- 78% of projects for repeat clients

£1.8bn
FY21 Revenue

Property

- A leading developer in the commercial occupier space
- Mixed sector property development focused on sustainable urban regeneration
- Delivering nationally through key partnerships and joint ventures with both public and private sector clients

£0.1bn
FY21 Revenue

Note: (1) Construction includes Kier Places and International

Group Strategic Framework

Refreshed strategy underpins the implementation of the Medium Term Value Creation Plan

Purpose:
To sustainably deliver infrastructure which is vital to the UK

Vision:
Be the UK leading infrastructure services and construction company

Strategy:
Focus on government, regulated or blue-chip client base
Operate in business-to-business markets
Contracting through long term frameworks

Strategic actions:
Disciplined growth + Consistent delivery + Generate cash

Kier Proposition – key building blocks			
	An integrator and strategic partner	Breadth, depth and diversity of talent	Supply chain partnerships
	Innovation and digitisation	A culture of Performance Excellence	Delivering sustainably
Our Values	**Collaborative**	**Trusted**	**Focused**

Summary Medium Term Targets

Medium term targets provide clear visibility over longer-term direction of Group

- Organic annual revenue c.£4.0bn - £4.5 bn
- Adjusted operating margin c.3.5%
- Cashflow conversion of operating profit c.90%[(1)]
- Balance sheet: sustainable net cash position with capacity to invest
- Sustainable dividend policy: c.3x cover through the cycle

Medium Term Value Creation Plan

Note: (1) Defined as operating cash flow less capital expenditure

FY21 Results

Simon Kesterton, CFO

Income Statement – Continuing Operations

Delivery of strategic actions and operational performance driving improved results

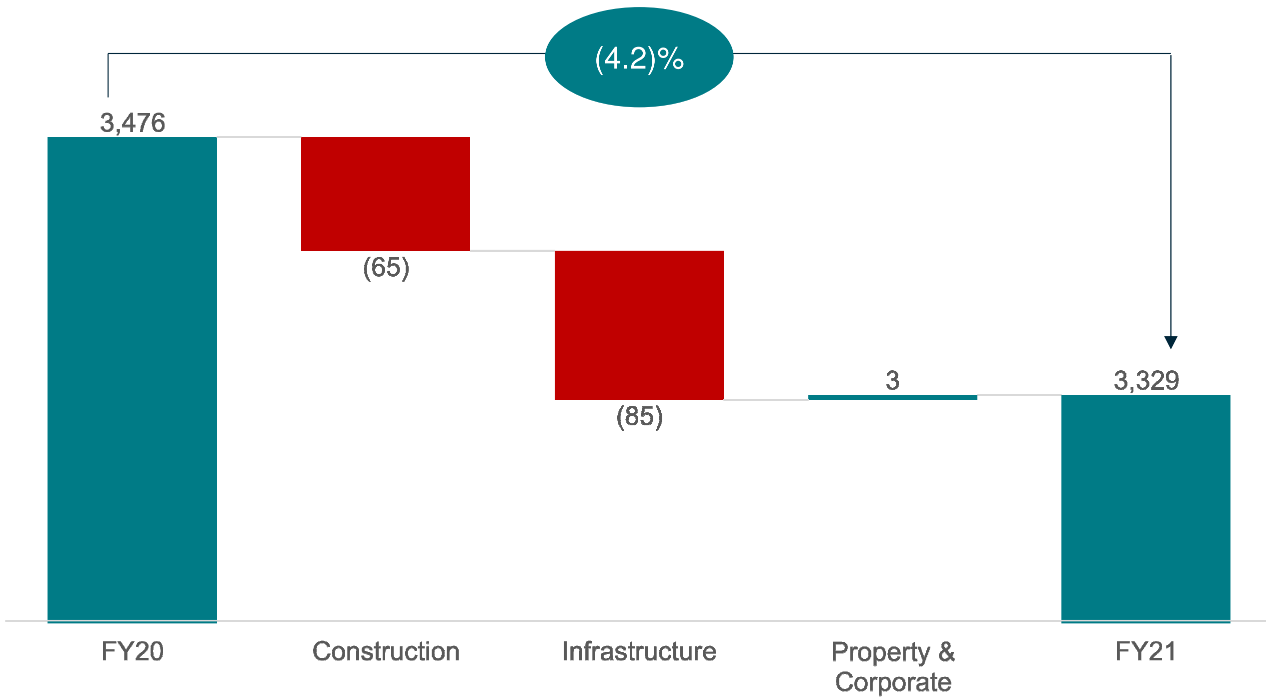
£'m	FY21	%	FY20	%	Δ
Revenue	3,329		3,476		(4.2)%
Adjusted Operating Profit [(1)]	100.3	*3.0*	41.4	*1.2*	142%
Net finance costs	(34.9)		(24.5)		(42.4)%
Adjusted Profit	65.4	*2.0*	16.9	*0.5*	287%
Adjusting items	(38.8)		(218.5)		82.2%
Amortisation	(21.0)		(23.7)		11.4%
Taxation	17.4		53.4		(67.4)%
Profit / (loss) from continuing operations	23.0		(171.9)		113.4%
Adjusted basic EPS	25.0p		12.2p		104.9%
Statutory EPS	11.6p		(85.3)p		113.6%
Net cash / (debt)	3.0		(310.3)		
Average month-end net debt	(432)		(436)		

- Slight revenue reduction reflects simplification of Group, motorway upgrade completions, COVID-19 impact partially offset by growth in core businesses
- Adjusted operating profit of £100m reflecting cost actions and improved underlying business performance
- Reported profit of £23m with declining adjusting items
- Net cash of £3m with capital raise, sale of Kier Living and cash generation
- Average net debt stable given timing of cash proceeds in the final months of the year

Note: (1) FY20 adjusted operating profit £86.7m before COVID-19 costs

Revenue Performance – Continuing Operations

Revenue impacted by simplification of Group, completion of contracts and COVID-19 offset by growth in core businesses



- Revenue decline of 4.2% in FY21
  - Construction – exit of low margin or loss making non-core businesses and COVID-19 procurement delays
  - Infrastructure – successful motorway upgrade completions in H2 FY20 partially offset by HS2 ramp up in FY21

Adjusted Operating Profit – Continuing Operations

Margin increase underpinned by improved quality of earnings

- Adjusted operating profit of £100m, 3% margin
- Increase against prior year:
  - Volume/ price/ mix
  - Cost inflation
  - Management actions
  - Wages and salaries
  - COVID-19 direct costs

Adjusting Items – Continuing Operations

Adjusting items significantly reduced as 2019 strategic actions delivered

£'m	FY21	FY20
Previous acquisition costs	-	5.0
Business divestment related expenditure	0.5	33.6
Restructuring and related charges	31.6	156.1
Amortisation	21.0	23.7
Other	3.5	18.6
Total adjusting items to operating profit	56.6	237.0
Finance costs	3.2	5.2
Total adjusting items to profit before tax	59.8	242.2
Cash cost	53.4	93.5

- Restructuring costs in regional building business, employee exit costs as well as equity raise fees
- Amortisation is non-cash and relates to acquired intangibles from previous acquisitions

Free Cash Flow – Continuing Operations

Profits translating to cash

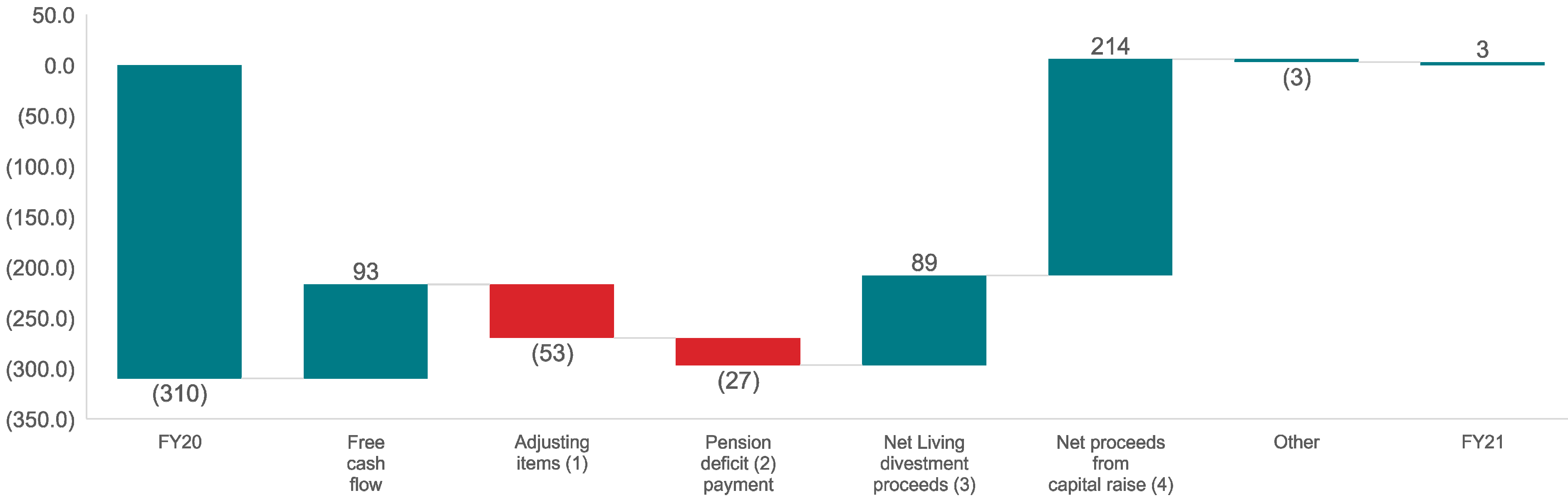
£'m	FY21	FY20
Adjusted EBITDA (1) (4)	150.3	161.1
Working capital (1)	63.5	(43.7)
Net capex (Including IFRS16 leases) (1)	(47.0)	(47.4)
JV dividends less profits	6.6	19.3
Other (2)	7.0	9.0
Operating Cash Flow	180.4	98.3
Net interest & tax (1)	(26.8)	(32.5)
Free Cash Flow before COVID-19 impact	153.6	65.8
Adjusted conversion (3)	180%	113%
Net COVID-19 impact	(61.0)	(74.1)
Free Cash Flow	92.6	(8.3)

- Significant increase in operating cash flow conversion
- Working capital:
  - Reflects c. £50m benefit due to new VAT rules
  - Offset by £46m reduction in KEPS utilisation
  - Maintaining supply chain average payment of 34 days (5)
- COVID-19 impact
  - Repaid £61m of HMRC deferred taxes
  - £19m remaining to be paid

Notes:
(1) FY20 restated to include IFRS16 in each line (previously shown separately)
(2) Other consists of share-based payments, profit on disposals of PPE and pension adjustments
(3) Adjusted conversion calculated as operating cash flow over adjusted EBIT (FY20 restated as OCF over adjusted EBIT before direct COVID-19 costs of £45m)
(4) Adjusted EBITDA FY20 is stated before direct and volume related COVID-19 impact
(5) Compared to prior 6 months. For FY21 supplier payment days reduced from 38 to 34 days

Net Debt Movement

Capital raise, sale of Kier Living and underlying free cash generation leading to year end net cash position



Notes:
(1) Adjusting items excludes £17.5m of fees and £1.2m SDLT relating to Living divestment and equity raise
(2) Pension payments excludes £10m additional payment relating to Living divestment
(3) Net Living proceeds is net of £9.2m fees, £1.2m SDLT, £10m additional pension payment and £11.4m discontinued net debt movement
(4) Net proceeds from capital raise is net of £10.9m fees

Financing and Liquidity

Significant liquidity headroom under borrowing facilities

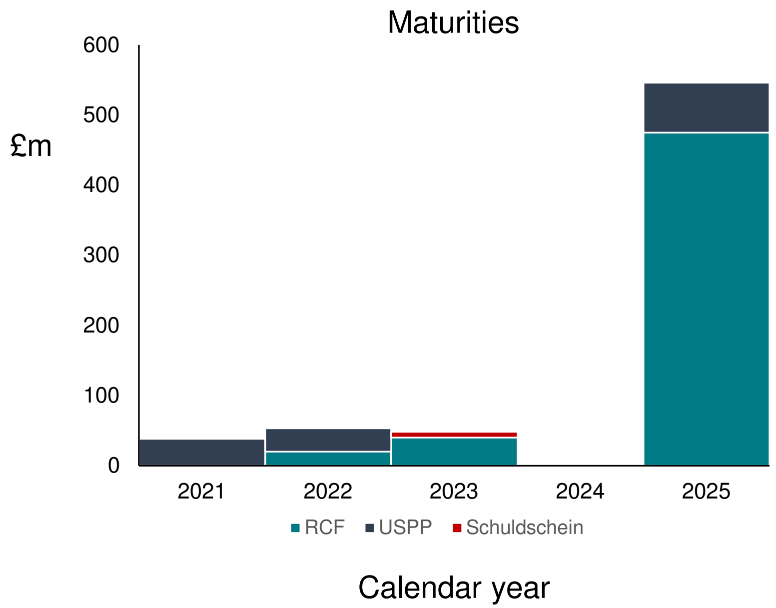
KPIs	Jun 2021
Net cash (£m)	3
Average month-end net debt (£m)	(432)

Average month-end net debt

- Receipts from capital raise and sale of Kier Living received in final months of FY21

Facility extensions

- Debt facilities extended to January 2025
  - RCF of £475m
  - USPP Notes of £71m
- Allows financial flexibility to focus on medium term plan



Strong Order Book

Order book underpinned by long-term framework positions

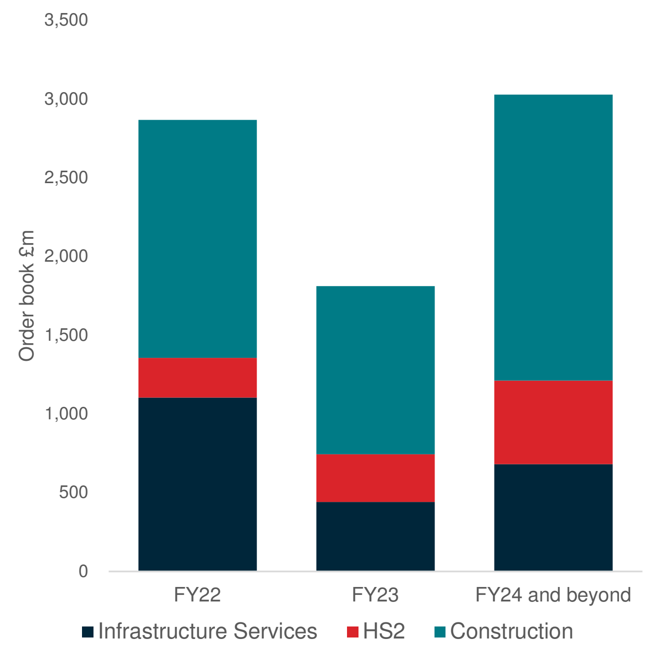
- Order book at £7.7bn (FY20: £7.9bn)
- 83% of FY22 revenue secured
- De-risked contracts:
  - 52% of order book is under target cost or cost reimbursable contracts
  - Construction - regional build and strategic projects average order size is c.£12m
  - Underpinned by long-term framework positions

Orderbook

£7.7bn(1)

£3.3bn	£1.1bn	£3.3bn
Infrastructure Services	**HS2**	**Construction**

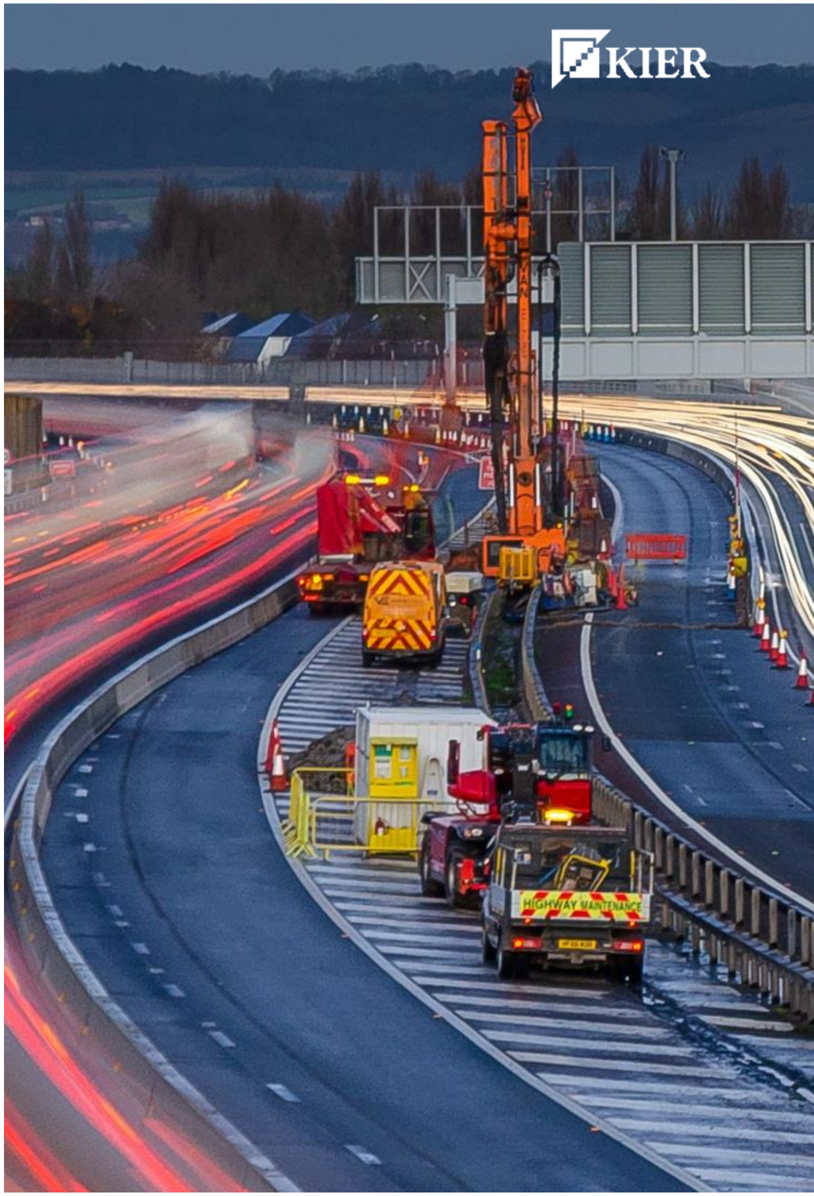
Secured revenue



Note: (1) Order book as at 30 June 2021 reflects secured and probable future contract revenue not currently recognised in the financial statements

Operational Update

Andrew Davies, CEO



Infrastructure Services

Highways, Utilities and Infrastructure businesses positioned for work winning and delivery

£'m	FY21	FY20	Δ
Revenue	1,422	1,506	(5.6)%
Adjusted Operating Profit	65.3	31.3	108.6%
Operating margin	4.6%	2.1%	250 bps
Order book (£bn)	4.4	4.6	(4.3)%

Financial Performance

- Revenue reflects the successful handover of M20, M23 and J16-19 of M6 motorway upgrades
- Adjusted Operating Profit margin improvement reflects focus on higher margin capital works

Commercial & Operational Update

- Appointed by HS2 to deliver major programme of highway and utility works on Phase 2A
- Appointed on £200m Transport for London maintenance and management contract over 8 years
- New contract with Openreach to construct new broadband infrastructure
- 87% revenue secured for FY22

Construction

Reorganised profitable business well placed to benefit from UK Government opportunities

£'m	FY21	FY20	Δ
Revenue	1,769	1,835	(3.6)%
Adjusted Operating Profit	56.7	43.6	30.0%
Operating margin	3.2%	2.4%	80 bps
Order book (£bn)	3.3	3.3	-%

Financial Performance

- Revenue reflects exit of low margin or loss making non-core businesses and COVID-19 procurement delays
- Adjusted Operating Profit increase due to focus on margin and realising benefits of cost saving programme

- Awarded places on frameworks worth up to £11.5bn
- Significant awards in the new year (not included in FY21 orderbook):
  - Appointed on Lot 2 of Scape Framework with expected £2bn pipeline over next 4 years
  - Won place on £1bn MoJ New Prisons Programme
- Continued successful delivery of £275m HMP Five Wells prison:
  - Handover expected by end of 2021
- Newly branded Kier Places business consisting of housing maintenance and facilities management
- 80% revenue secured for FY22

Property

Disciplined growth with capital allocation

£'m	FY21	FY20	Δ
Revenue	134	124	8.1%
Adjusted Operating Profit	5.7	(3.2)	+278%
Operating margin	4.3%	(2.6)%	690 bps
Capital employed	135	145	(6.9%)

Financial Performance

- A core business
- Measured capital allocation in-line with strategy
- Synergies and return through increased capital allocation

Sustainability Framework

Andrew Davies, CEO

Sustainability

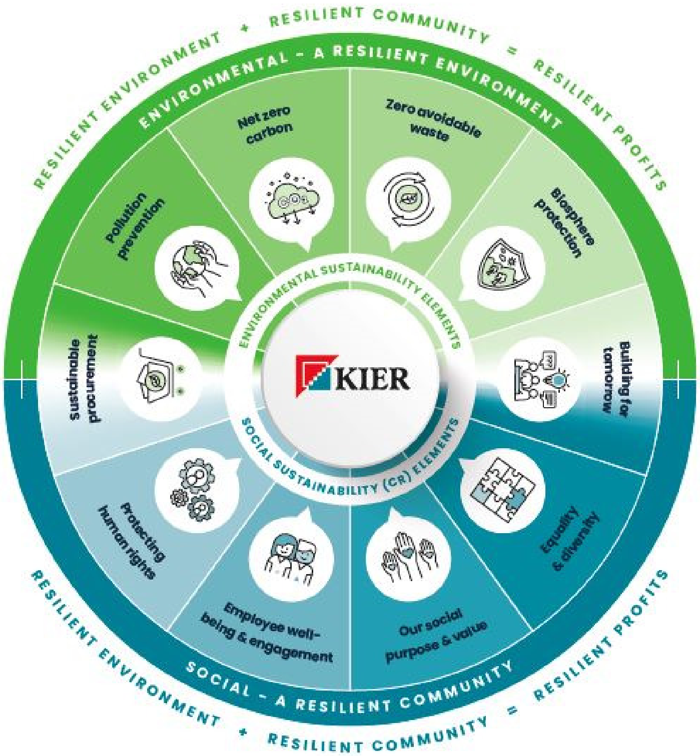
Launched sustainability framework, Building for a Sustainable World

Key focus areas include:

1. **Resilient environment** – pollution prevention, sustainable procurement, net zero carbon, zero avoidable waste and biosphere protection

2. **Resilient community** – building for tomorrow, diversity and inclusion, our social value and purpose, employee wellbeing and retention and protecting human rights

3. **Resilient profits** – operating responsibility, governance, health and safety and risk mitigation



Environmental

Targeting 65% reduction in Scope 1 & 2 emissions over the next decade

Path to Net Zero by 2045

- Pollution prevention
- Sustainable procurement
- Net zero carbon
- Zero avoidable waste
- Biosphere protection

FY21 Progress

- ✓ **Carbon** – reduction in carbon intensity of 27% between FY20 and FY21 and 24% from FY19 baseline
- ✓ **Waste** – 22% year over year reduction in the volume of non-hazardous construction waste from 6.2 m3/£100k revenue in FY20 to 4.9 m3/£100k revenue in FY21
  - Waste diverted from landfill – 87% of total FY21 waste [(1)]
- ✓ **Sustainable procurement** - review and redevelopment of policies with focus on sustainability
- ✓ **Biosphere protection**
  - Water – FY21 baseline for cost of water as a percentage of operational spend is 0.03%
  - Transitional year with baseline re-set using FY21 data

Note: (1) Materials and waste packaging

Social

Committed to addressing social issues and creating social value

Social Pillars

- Building for tomorrow
- Diversity and inclusion
- Our social value and purpose
- Employee wellbeing and retention
- Protecting human rights

FY21 Progress

✓ **Social value** – generating £233m of social value through supporting initiatives

✓ **Safety** – 12-month AIR (105) and 12-month AAIR (332). Year over year increase of c.21% and c.9%, respectively. Disappointing but strong safety record for the industry

✓ **Supplier payments days** – year over year reduction from 38 to 34 days

✓ **Employees:**

- **Apprenticeships** – 649 apprentices participating in apprenticeship programmes, 6% of workforce
- **Graduates** – graduate intake comprising 25% women in FY21
- **Diversity & Inclusion** – Launched Expect Respect campaign and introduction of Real Living Wage

Governance

Visibility and widened accountability through operating and risk management frameworks

Operating framework

The Group

Group Strategic Framework

The Board

The Executive Committee

Organisational Structure

Governance

A- General	B- Corporate Policies such as	C- Operating Policies such as	D- Core Business Processes such as
Code of Conduct	Anti Bribery and Corruption	Health and Safety	Project Lifecycle Management
Group Delegated Authorities	Data Protection	Employee Handbook	Performance-Centred Leadership
Operating Assurance Statement	Inside information	Information Security	Business Reporting

Annex

Group Policies and Processes

OAS Signatories

Group Delegated Authorities

Risk management framework

Investment Proposition

1. **Value accretive earnings-led business model.** Aligned to UK Government's investment priorities
2. **Attractive market positions** focused on UK infrastructure and construction markets
3. **Strong order book** underpinned by long-term contracts and framework agreements
4. **Experienced management team**. Proven track record of operational and financial delivery

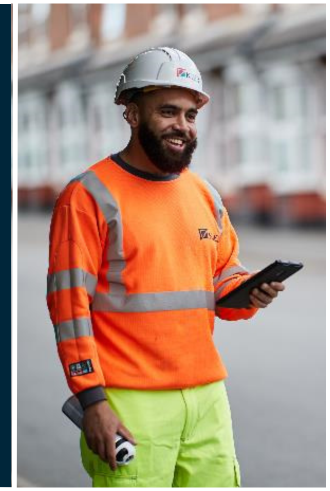
KIER

KIER

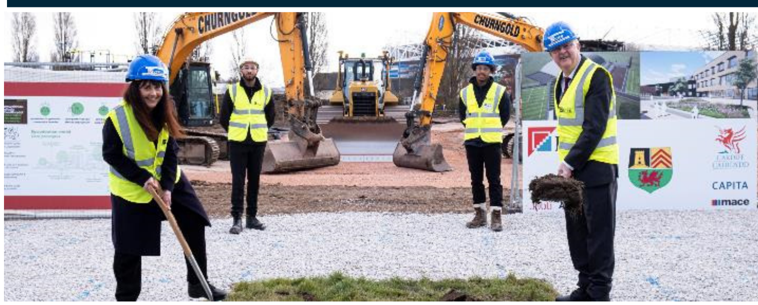
Summary and Outlook

1. Materially improved results following successful completion of 2019 strategic actions
2. Balance sheet strengthened through successful capital raise and sale of Kier Living
3. Current trading in line with expectations despite inflationary pressures and increased national insurance payments. Current year outlook unchanged
4. On track to deliver medium term targets

FY22 Capital Markets Event
Details to follow

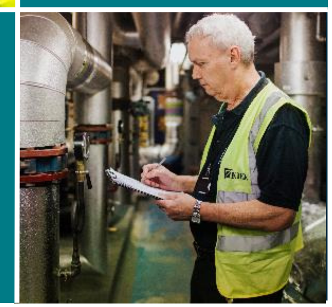


Building sustainable infrastructure which is vital to the UK

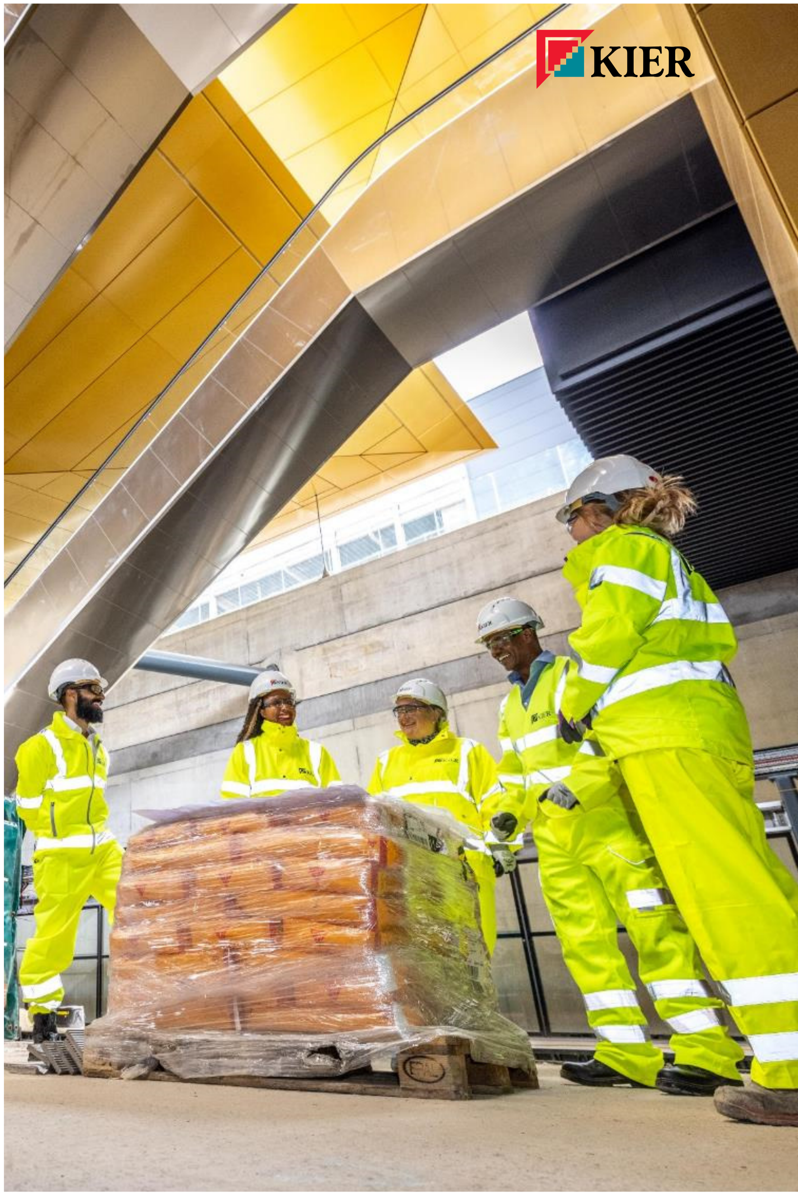


Attractive market positions

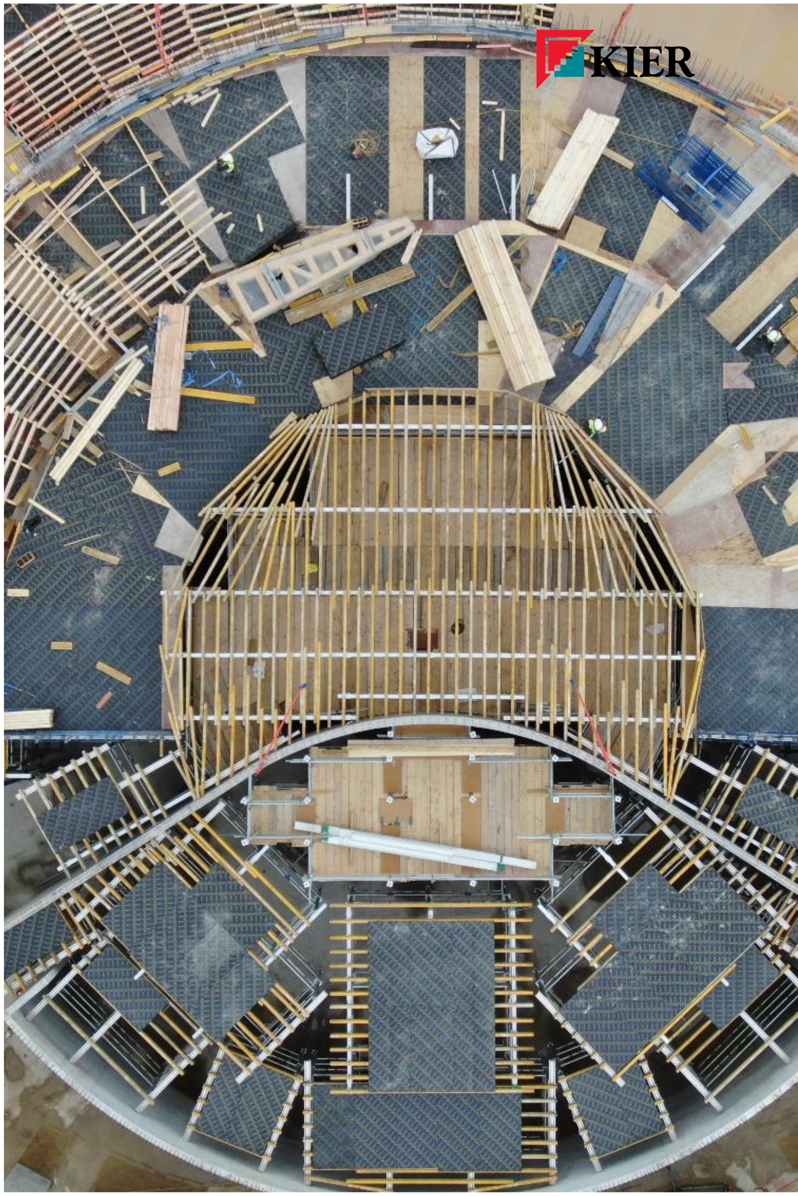
Value - accretive earnings-led business model



Q & A



Appendix



Management Team

Executive Board Members


Andrew Davies
Chief Executive Officer


Simon Kesterton
Chief Financial Officer

Corporate Functions


Alpna Amar
Corporate Development Director


Helen Redfern
Group HR Director


Stuart Togwell
Group Commercial Director


Sophie Timms
Corporate Affairs Director

Group Managing Directors


Mark Pengelly
Infrastructure


Barry McNicholas
Utilities


Joe Incutti
Highways


Leigh Thomas
Property


Liam Cummins
Construction

Strategic Actions

Successful disposal of Kier Living completed on 28 May 2021

- Identified as non-core as limited operational synergies
- Significant capital requirements to grow business
- **Disposal completed on 28 May 2021**
- Classified as discontinued operations

£m	
Gross Proceeds	**£121m**
Transaction costs	£(10)m
Net proceeds	£111m
Use of Proceeds	
Reduction in net debt	£(85)m
Pension contributions and other	£(11)m
Net Impact	**£15m**

Modern Methods of Construction (MMC)

Cost, timing and social benefits of innovation

- **Project: NHS Golden Jubilee Hospital Phase 2**
  - Support existing hospital to provide 9,400 new outpatient consultations, 4,400 pre-operative assessments 13,900 other procedures. Completion 2023
- **MMC capability**
  - Hybrid pre-cast concrete frame, cast in service support systems, pre-designed riser-safe systems and modularised service installation
- **Benefits**
  - Hybrid cast - 15% of scope, Providing on site saving of 6 months compared to an in-situ approach
  - Significant reduction of construction impact and local disruption
  - 60% workforce reduction
  - c.65% of its supply chain will be in a 30-mile radius
  - 10 apprenticeships and additional work placements

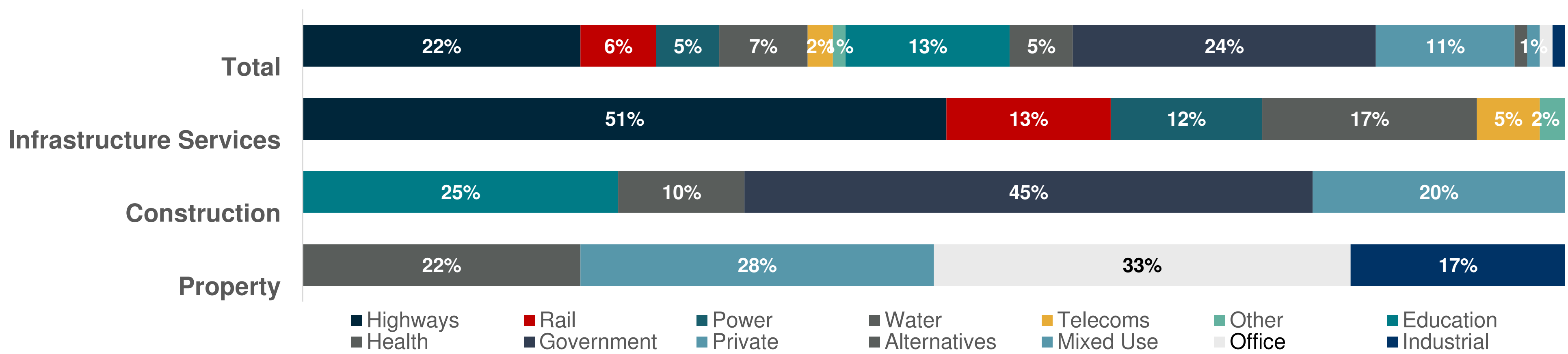
Pension

Revised schedule of pension payments agreed

£'m	30 Jun 2021	30 Jun 2020	Δ
Group Pension Schemes			
Market value of assets	1,909.9	1,937.9	(28.0)
Present value of liabilities	(1,863.7)	(1,899.1)	35.4
Net (deficit) / surplus	46.2	38.8	7.4
Deferred tax	(12.6)	(7.4)	(5.2)
Net pension (liability) / asset after deferred tax	**33.6**	**31.4**	**2.2**

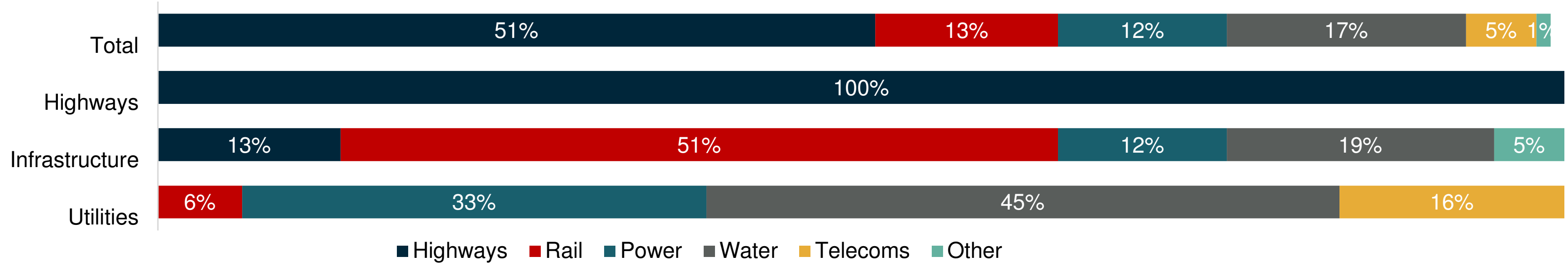
- As at 30 June 2021, Group's pension schemes' surplus was £46.2m (June 20: £38.8m)
- Additional payment of £10m re: sale of Kier Living
- Revised deficit recovery plan agreed with Trustees of £4.5m in calendar year 2021 and £9m p.a. thereafter
- Additional contributions payable on a variable basis subject to Kier meeting certain adjusted EBIT hurdles

Group Revenue Analysis



Segmental Revenue Analysis

Infrastructure Services



Construction